

**CHEROKEE
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2011

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CHEROKEE COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Laura Dawson	President	2011
Jack Creel	Vice President	2011
Deb Johnson		2011
Larry Goodrich		2013
Terri Weaver		2013

School Officials

John Chalstrom	Superintendent
Joyce Lundsgaard	District Secretary/ Treasurer

BRUCE D. FRINK

Certified Public Accountant

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Independent Auditor's Report

To the Board of Education of
Cherokee Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Cherokee Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund of Cherokee Community School District at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 9, 2012 on our consideration of Cherokee Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 12 and 37 through 39 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cherokee Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133. Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



BRUCE D. FRINK
Certified Public Accountant

January 9, 2012

CHEROKEE COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

Cherokee Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$9,101,795 in fiscal year 2010 to \$9,626,890 in fiscal year 2011, while General Fund expenditures increased from \$9,199,774 in fiscal year 2010 to \$9,212,151 in fiscal year 2011.
- The increase in General Fund revenues was due primarily to increased property tax revenues. Decreased federal funding was offset by an increase in state source revenues. The District's expenditures were virtually the same as the prior year.
- The District continues to maintain a solvent financial position due to budget planning.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of Statement of Net Assets and a Statement of Activities. These provide information about the activities of Cherokee Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Cherokee Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Cherokee Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor governmental funds as well as a multiyear comparison of revenues and expenditures. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Cherokee Community School District Annual Financial Report

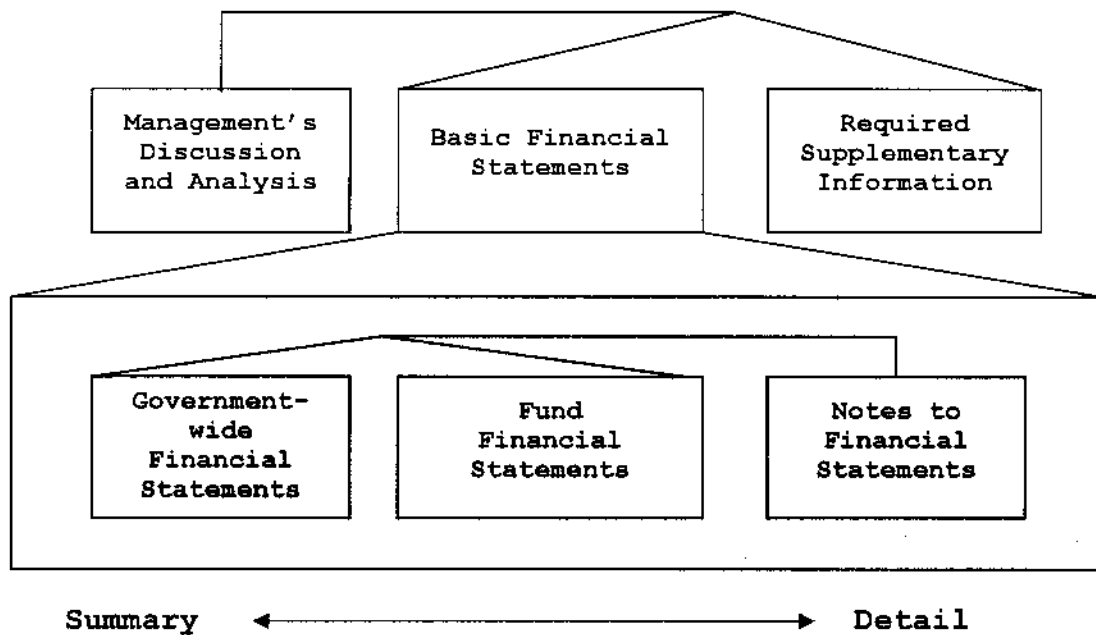


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and internal services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long- term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The District has elected to present all funds as "major" for clarity of presentation.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's program.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Funds and the Capital Projects Funds.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. The District also has an Internal Service Fund that is used to account for health insurance and related benefits.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

3) *Fiduciary Funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2011 compared to June 30, 2010.

Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30, 2011	2010	June 30, 2011	2010	June 30, 2011	2010	2010-2011
Current assets	\$ 7,120	6,491	124	123	7,244	6,614	9.53%
Capital assets	7,970	8,033	43	23	8,013	8,056	-0.53%
Total assets	15,090	14,524	167	146	15,257	14,670	4.00%
Current liabilities	3,822	7,047	1	3	3,823	7,050	-45.77%
Non-current liabilities	3,996	1,379	-	-	3,996	1,379	189.78%
Total liabilities	7,818	8,426	1	3	7,819	8,429	-7.24%
Net Assets:							
Invested in capital assets, net of related debt	4,340	3,952	43	23	4,383	3,975	10.26%
Restricted	1,943	1,690	-	-	1,943	1,690	14.97%
Unrestricted	989	456	123	120	1,112	576	93.06%
Total net assets	\$ 7,272	6,098	166	143	7,438	6,241	19.18%

The District's combined net assets increased over 19% from the prior year. The largest portion of the District's net assets is invested in capital assets.

Unrestricted net assets, the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, increased approximately \$536,000. This increase in unrestricted net assets was primarily a result of an increase of over \$400,000 in the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-4 Changes in Net Assets (Expressed in Thousands)							
Governmental Activities		Business Type Activities		Total School District		Total Change	
2011	2010	2011	2010	2011	2010	2010-2011	
Revenues:							
Program revenues:							
Charges for service and sales	\$ 442	391	240	238	682	629	8.43%
Operating grants, contributions and interest and restricted interest	2,329	2,368	240	235	2,569	2,603	-1.31%
General revenues:							
Property tax	3,365	3,008	-	-	3,365	3,008	11.87%
Income surtax	215	191	-	-	215	191	12.57%
Statewide sales, service and use tax	693	633	-	-	693	633	9.48%
Unrestricted state grants	4,189	3,849	-	-	4,189	3,849	8.83%
Unrestricted investment earnings	6	6	-	-	6	6	0.00%
Other	104	57	-	-	104	57	82.46%
Total revenues	<u>11,343</u>	<u>10,503</u>	<u>480</u>	<u>473</u>	<u>11,823</u>	<u>10,976</u>	<u>7.72%</u>
Program expenses:							
Governmental activities:							
Instruction	6,367	6,751	-	-	6,367	6,751	-5.69%
Support services	2,540	2,418	-	-	2,540	2,418	5.05%
Non-instructional programs	-	-	456	455	456	455	0.22%
Other expenses	<u>1,262</u>	<u>1,071</u>	<u>-</u>	<u>-</u>	<u>1,262</u>	<u>1,071</u>	<u>17.83%</u>
Total expenses	<u>10,169</u>	<u>10,240</u>	<u>456</u>	<u>455</u>	<u>10,625</u>	<u>10,695</u>	<u>-0.65%</u>
Change in net assets	<u>\$ 1,174</u>	<u>263</u>	<u>24</u>	<u>18</u>	<u>1,198</u>	<u>281</u>	<u>326.33%</u>

Property tax and unrestricted state grants account for 64% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 84% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$11,343,702 and expenses were \$10,169,602 for the year ended June 30, 2011.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services and other expenses, for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-5
Total and Net Cost of Governmental Activities
(Expressed in Thousands)

	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-2011	2011	2010	Change 2010-2011
Instruction	\$ 6,367	6,751	-5.69%	4,256	4,426	-3.84%
Support services	2,540	2,418	5.05%	2,517	2,400	4.88%
Non-instructional programs	-	-	0.00%	-	-	0.00%
Other expenses	1,262	1,071	17.83%	625	654	-4.43%
Totals	\$ 10,169	10,240	-0.69%	7,398	7,480	-1.10%

For the year ending June 30, 2011:

- The cost financed by users of the District's programs was \$442,576.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,402,549 (\$300,000 decrease). Stimulus money from the previous year was once again funded by the state.
- The net cost of governmental activities was financed with \$3,364,672 in property taxes (a \$357,399 increase) and \$4,188,919 in unrestricted state grants (a \$339,609 increase).

Business-Type Activities

Revenues for business type activities during the year ended June 30, 2011 were \$479,522 and expenses totaled \$455,936. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for food service, federal and state reimbursements and investment income.

The District uses an Internal Service Fund to account for health insurance costs and benefits. The balance of this fund is included with the General Fund on the Statement of Net Assets as that is where the vast majority of its funding comes from.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted, Cherokee Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,707,479; a seventeen percent increase over last year's ending fund balances of \$2,312,731.

Governmental Fund Highlights

- The District has carefully monitored discretionary spending to avoid decreases in fund balances. The preservation of the General Fund balance is especially important due to anticipation of lowered allowable growth from the state legislature and the District being placed on the 101% budget guarantee.
- The District received over \$690,000 in state school infrastructure funds during the year. These monies are used entirely for property tax relief.
- In September of 2009 the board imposed a 5 year Instructional Support Levy of 8%, funded primarily through income surtax and property tax. The previous ISP levy was 4.5%. This has substantially increased General Fund Revenue.
- In September of 2007 the voters approved an increase in the voted Physical Plant and Equipment Levy from .50 to .85. The additional funds have allowed the District to enhance its physical plant.

Proprietary Fund Highlights

The School Nutrition Fund balance increased approximately \$24,000 during the fiscal year ending June 30, 2011. The cash balance decreased approximately \$2,000 due to using nutrition cash to purchase equipment which will be expensed over its useful life of 12 years.

The District began an Internal Service Fund to account for health insurance costs and related benefits in FY 2009. The decision to partially self fund the District's health insurance continues to be advantageous in controlling health insurance increases.

BUDGETARY HIGHLIGHTS

The District's receipts were over \$55,000 lower than budgeted receipts, a variance of 1%. This variance resulted from the District receiving less from state revenue sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

The District exceeded the published budget in the other expenditures function. It did not exceed the General Fund unspent authorized budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had invested \$8,013,196, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expenses for the year were \$443,597.

The original cost of the District's capital assets was \$16,540,766. Governmental funds account for \$16,371,283, with the remainder of \$169,483 accounted for in the Proprietary, School Nutrition Fund.

The District spent over \$369,000 on equipment and facility improvement.

Figure A-6
Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30, 2011	2010	June 30, 2011	2010	June 30, 2011	2010	2010-2011
Land	\$ 714	714	-	-	714	714	0.00%
Land improvements	314	366	-	-	314	366	-14.21%
Buildings	6,358	6,387	-	-	6,358	6,387	-0.45%
Furniture and equipment	584	565	43	23	627	588	6.63%
Totals	\$ 7,970	8,032	43	23	8,013	8,055	-0.52%

Long-term Debt

The District has outstanding debt of \$3,630,000 for the Middle School built in 1999. The bond will be fully retired in the year 2018. This is currently being paid with proceeds of the one cent statewide sales, services and use tax.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future.

- The Silo tax was passed in February 2004, and money was received by the District beginning in September 2004. This was replaced in 2008 by the statewide sales, services and use tax. These funds are used for debt reduction resulting in property tax relief for the taxpayers. In spite of recessionary pressures the District continues to receive adequate revenue to cover these costs.
- A challenge for the District will be to find avenues to finance a technology infrastructure in the future that will support 21st century skills which are a vital component of the Iowa Core/Common Core Curriculum.
- Another issue impacting the long-term health of the District is declining enrollment. Anticipated future enrollment declines along with anticipated reductions in allowable growth will place increasing pressures on the District to be able to maintain current levels of staff and programming.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joyce Lundsgaard, District Secretary/Treasurer, Cherokee Community School District, 600 West Bluff, Cherokee, Iowa 51012.

Basic Financial Statements

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2011

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 3,131,180	85,188	3,216,368
Receivables:			
Property tax:			
Current year	35,294	-	35,294
Succeeding year	3,524,329	-	3,524,329
Income surtax	239,035	-	239,035
Due from other governments	157,756	-	157,756
Other receivables	32,513	1,250	33,763
Inventories	-	37,621	37,621
Capital assets, net of accumulated depreciation	7,970,180	43,016	8,013,196
Total assets	<u>15,090,287</u>	<u>167,075</u>	<u>15,257,362</u>
Liabilities			
Accounts payable	97,860	-	97,860
Accrued salary and benefits	17,360	-	17,360
Unearned revenue	-	819	819
Accrued interest payable	21,988	-	21,988
Deferred revenue:			
Succeeding year property tax	3,524,329	-	3,524,329
Federal programs	160,433	-	160,433
Long term liabilities:			
Portion due within one year:			
Early retirement	77,293	-	77,293
Bonds payable	465,000	-	465,000
Portion due after one year:			
Net OPEB liability	22,639	-	22,639
Early retirement	265,933	-	265,933
Bonds payable	3,165,000	-	3,165,000
Total liabilities	<u>7,817,835</u>	<u>819</u>	<u>7,818,654</u>
Net assets			
Invested in capital assets, net of related debt	4,340,180	43,016	4,383,196
Restricted for:			
Categorical funding	205,413	-	205,413
Student activities	60,251	-	60,251
Management levy	99,244	-	99,244
School infrastructure	1,021,967	-	1,021,967
Physical plant and equipment levy	183,058	-	183,058
Health benefits	373,611	-	373,611
Unrestricted	988,728	123,240	1,111,968
Total net assets	<u>\$ 7,272,452</u>	<u>166,256</u>	<u>7,438,708</u>

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Operating Grants, Contributions and Restricted Interest			Governmental Activities	Business Type Activities
	Expenses	Charges for Service			Total
Functions/Programs					
Governmental activities:					
Instruction	\$ 6,367,290	442,576	1,668,135	(4,256,579)	- (4,256,579)
Support services:					
Student services	190,942	-	-	(190,942)	- (190,942)
Instructional staff services	224,051	-	-	(224,051)	- (224,051)
Administration services	1,093,779	-	-	(1,093,779)	- (1,093,779)
Operation and maintenance of plant services	730,548	-	23,100	(707,448)	- (707,448)
Transportation services	300,558	-	-	(300,558)	- (300,558)
	2,539,878	-	23,100	(2,516,778)	- (2,516,778)
Other expenditures:					
Interest on long-term debt	159,419	-	-	(159,419)	- (159,419)
Long-term debt services	450	-	-	(450)	- (450)
Facilities acquisition and construction	257,347	-	224,183	(33,164)	- (33,164)
AEA flowthrough	413,858	-	413,858	-	-
Depreciation (unallocated)*	431,360	-	-	(431,360)	- (431,360)
	1,262,434	-	638,041	(624,393)	- (624,393)
Total governmental activities	10,169,602	442,576	2,329,276	(7,397,750)	- (7,397,750)

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2011

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Business Type Activities Activities Total
Business type activities:				
Non-instructional programs:				
Nutrition services	455,936	240,179	239,343	- 23,586 23,586
Total	\$ 10,625,538	682,755	2,568,619	(7,397,750) 23,586 (7,374,164)
General Revenues:				
Property tax levied for:				
General purposes				\$ 2,897,471 - 2,897,471
Management fund				200,023 - 200,023
Capital outlay				267,178 - 267,178
Income surtax				215,326 - 215,326
Statewide sales, services and use tax				692,793 - 692,793
Unrestricted state grants				4,188,919 - 4,188,919
Unrestricted investment earnings				5,721 - 5,721
Other				104,419 - 104,419
Total general revenues				8,571,850 - 8,571,850
Change in net assets				1,174,100 23,586 1,197,686
Net assets beginning of year				6,098,352 142,670 6,241,022
Net assets end of year				\$ 7,272,452 166,256 7,438,708

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2011

Assets

Cash and pooled investments									
Receivables:									
Property tax:									
Current year									
Succeeding year									
Income surtax									
Due from other governments									
Other receivables									
Total assets									
	\$ 1,454,717	60,251	97,143	965,162	180,296	2,757,569			
	30,431	-	2,101	-	2,762	35,294			
	3,057,228	-	200,000	-	267,101	3,524,329			
	239,035	-	-	-	-	239,035			
	100,951	-	-	56,805	-	157,756			
	32,513	-	-	-	-	32,513			
	<u>\$ 4,914,875</u>	<u>60,251</u>	<u>299,244</u>	<u>1,021,967</u>	<u>450,159</u>	<u>6,746,496</u>			

CHEROKEE COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2011

	General	Student Activity	Management Levy	Capital Projects			Total
				Statewide Sales, Services and Use Tax	Physical Plant and Equipment	Levy	
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 97,860	-	-	-	-	-	97,860
Accrued salary and benefits	17,360	-	-	-	-	-	17,360
Deferred revenue:							
Succeeding year property tax	3,057,228	-	200,000	-	267,101	-	3,524,329
Income surtax	239,035	-	-	-	-	-	239,035
Federal programs	160,433	-	-	-	-	-	160,433
Total liabilities	3,571,916	-	200,000	-	267,101	-	4,039,017
Fund balances:							
Restricted for:							
Categorical funding	205,413	-	-	-	-	-	205,413
Student activities	-	60,251	-	-	-	-	60,251
Management levy	-	-	99,244	-	-	-	99,244
School infrastructure	-	-	-	1,021,967	-	-	1,021,967
Physical plant and equipment	-	-	-	-	183,058	-	183,058
Unassigned	1,137,546	-	-	-	-	-	1,137,546
Total fund balances	1,342,959	60,251	99,244	1,021,967	183,058	-	2,707,479
Total liabilities and fund balances	\$ 4,914,875	60,251	299,244	1,021,967	450,159	-	6,746,496

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2011

Total fund balances of governmental funds (Exhibit C)			\$ 2,707,479
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Income surtax receivable at June 30, 2011 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.			239,035
Internal Service fund assets that are to be included with governmental funds.			373,611
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.			7,970,180
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.			(21,988)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.			
Net OPEB liability	\$	(22,639)	
Early retirement payable		(343,226)	
Bonds payable		(3,630,000)	(3,995,865)
Net assets of governmental activities (Exhibit A)			<u>\$ 7,272,452</u>

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2011

	General	Student Activity	Management Levy	Capital Projects			Debt Service	Total
				Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy			
Revenues:								
Local sources:								
Local tax	\$ 3,048,124	-	200,023	692,793	267,178	-	-	4,208,118
Tuition	419,892	-	-	-	-	-	-	419,892
Other	159,421	244,862	16,830	5,798	218,782	-	-	645,693
State sources	5,486,893	-	183	-	1,418	-	-	5,488,494
Federal sources	512,560	-	-	-	4,272	-	-	516,832
Total revenues	9,626,890	244,862	217,036	698,591	491,650	-	-	11,279,029
Expenditures:								
Instruction	6,236,569	253,422	304,957	-	-	-	-	6,794,948
Support services:								
Student services	190,942	-	-	-	-	-	-	190,942
Instructional staff services	224,051	-	-	-	-	-	-	224,051
Administration services	1,177,500	-	5,750	-	-	-	-	1,183,250
Operation and maintenance of plant services	684,548	-	44,800	-	1,200	-	-	730,548
Transportation services	284,683	-	12,412	-	3,463	-	-	300,558
	2,561,724	-	62,962	-	4,663	-	-	2,629,349
Non-instructional programs:								
Food service operations	-	-	-	-	-	-	-	-

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2011

	General	Student Activity	Management Levy	Capital Projects			Debt Service	Total
				Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy			
Other expenditures:								
Long-term debt:								
Principal	-	-	-	-	-	-	450,000	450,000
Interest	-	-	-	-	-	-	149,925	149,925
Services	-	-	-	-	-	-	450	450
Facilities acquisition and construction	-	-	-	-	445,751	-	-	445,751
AEA flowthrough	413,858	-	-	-	-	-	-	413,858
	413,858	-	-	-	445,751	-	600,375	1,459,984
Total expenditures	9,212,151	253,422	367,919	-	450,414	-	600,375	10,884,281
Excess (deficiency) of revenues over (under) expenditures	414,739	(8,560)	(150,883)	698,591	41,236	-	(600,375)	394,748
Other financing sources (uses):								
Operating transfers in	-	-	-	-	-	-	600,375	600,375
Operating transfers out	-	-	-	(600,375)	-	-	-	(600,375)
Total other financing sources (uses)	-	-	-	(600,375)	-	-	600,375	-
Net change in fund balances	414,739	(8,560)	(150,883)	98,216	41,236	-	-	394,748
Fund balances beginning of year	928,220	68,811	250,127	923,751	141,822	-	-	2,312,731
Fund balances end of year	\$ 1,342,959	60,251	99,244	1,021,967	183,058	-	-	2,707,479

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2011

Net change in fund balances - total governmental funds (Exhibit E) \$ 394,748

**Amounts reported for governmental activities in the Statement of
Activities are different because:**

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities

This figure represents the change from the prior fiscal year. 64,673

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 369,061	
Depreciation expense	<u>(431,360)</u>	(62,299)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(9,494)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

450,000

Internal Service Fund transactions are not reported in the General Fund as revenues and expenditures, however the General Fund is the source of these revenues and use of the expenditures.

137,412

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Other postemployment benefits	(11,372)	
Early retirement	<u>210,432</u>	<u>199,060</u>

Change in net assets of governmental activities (Exhibit B) \$ 1,174,100

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

Year ended June 30, 2009

	Business Type	Governmental Activities
	School Nutrition	Internal Service
Assets		
Cash and pooled investments	\$ 85,188	373,611
Other receivables	1,250	-
Inventories	37,621	-
Capital assets, net of accumulated depreciation	43,016	-
Total assets	<u>167,075</u>	<u>373,611</u>
Liabilities		
Unearned revenue	819	-
Total liabilities	<u>819</u>	<u>-</u>
Net Assets		
Invested in capital assets	43,016	-
Restricted for health benefits	-	373,611
Unrestricted	<u>123,240</u>	<u>-</u>
Total net assets	<u>\$ 166,256</u>	<u>373,611</u>

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2011

	Business Type	Governmental Activities
	School Nutrition	Internal Service
Operating revenue:		
Local sources:		
Charges for services	\$ 240,179	285,020
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Salaries	149,153	-
Benefits	58,438	-
Services	5,769	-
Supplies	230,179	-
Other	160	-
Depreciation	12,237	-
	455,936	-
Internal service programs:		
Benefits	-	148,982
Total operating expenses	455,936	148,982
Operating income (loss)	(215,757)	136,038
Non-operating revenues:		
Interest on investments	127	1,374
State sources	4,286	-
Federal sources	234,930	-
	239,343	1,374
Net income	23,586	137,412
Net assets beginning of year	142,670	236,199
Net assets end of year	\$ 166,256	373,611

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2011

	Business Type	Governmental Activities
	School Nutrition	Internal Service
Cash flows from operating activities:		
Cash received from sale of services	\$ 238,562	285,020
Cash payments to employees for services	(207,591)	(148,982)
Cash payments to suppliers for goods or services	(208,630)	-
Net cash provided by (used by) operating activities	(177,659)	136,038
Cash flows from non-capital financing activities:		
State grants received	4,286	-
Federal grants received	203,724	-
Net cash provided by non-capital financing activities	208,010	-
Cash flows from capital financing activities:		
Acquisition of capital assets	(31,785)	-
Cash flows from investing activities:		
Interest on investments	127	1,374
Net increase in cash and cash equivalents	(1,307)	137,412
Cash and cash equivalents beginning of year	86,495	236,199
Cash and cash equivalents end of year	\$ 85,188	373,611
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:		
Operating income (loss)	\$ (215,757)	136,038
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:		
Depreciation	12,237	-
Commodities used	31,206	-
Decrease in other receivables	349	-
(Increase) in inventory	(3,728)	-
(Decrease) in unearned revenue	(1,966)	-
	\$ (177,659)	136,038

Non-cash investing, capital and financing activities:

During the year ended June 30, 2011, the District received federal commodities valued at \$31,206.

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2011

	Private Purpose <u>Trusts</u>
Assets	
Cash and pooled investments	\$ <u>38,777</u>
Total assets	<u>38,777</u>
Net Assets	
Reserved for special purposes	<u>38,777</u>
Total net assets	<u>\$ 38,777</u>

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2011

	Private Purpose Trusts
Additions:	
Local sources:	
Interest on investments	\$ 149
Contributions	<u>5,748</u>
Total additions	<u>5,897</u>
Deductions:	
Support services:	
Other	<u>8,233</u>
Total deductions	<u>8,233</u>
Change in net assets	(2,336)
Net assets beginning of year	<u>41,113</u>
Net assets end of year	<u>\$ 38,777</u>

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

Cherokee Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Cherokee, Iowa, and agricultural territory in Cherokee County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards board.

A. Reporting Entity

For financial reporting purposes, Cherokee Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Cherokee Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Cherokee County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The District has elected to present all funds as major funds for clarity of presentation.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Student Activity Fund is used to account for extra curricular activities conducted on behalf of the students.

The Capital Projects, Physical Plant and Equipment Levy Fund is utilized to account for the maintenance and equipping of the District's facilities and other capital assets.

The Management Levy Fund is utilized for the payment of insurance, unemployment and early retirement benefits.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects, Statewide Sales, Services and Use Tax Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The District reports the following major proprietary funds:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

The District's Internal Service Fund is used to account for the health insurance activities of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

The proprietary funds of the District apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The principal operating revenues of the Internal Service Fund are transfers from the General Fund. Operating expenses include health insurance and other related benefits. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment and intangibles are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years. No intangible assets were noted that exceeded the threshold amount.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Intangibles	50,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Intangibles	5-10 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for employees with annual contracts corresponding to the current school year, which are payable in July, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and income surtax receivables that will not be recognized as revenue until the year for which it is levied as well as unspent grant proceeds.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2011.

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned - All amounts not included in other spendable classifications.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, expenditures exceeded the amount budgeted in the other expenditures function. The District did not exceed the General Fund unspent authorized budget.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2011.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 714,434	-	-	714,434
Capital assets being depreciated:				
Land Improvements	1,618,470	-	-	1,618,470
Buildings	10,540,286	188,404	-	10,728,690
Furniture and Equipment	3,129,032	180,657	-	3,309,689
Total capital assets being depreciated	15,287,788	369,061	-	15,656,849
Less accumulated depreciation for:				
Land Improvements	1,252,941	51,827	-	1,304,768
Buildings	4,152,988	217,556	-	4,370,544
Furniture and Equipment	2,563,814	161,977	-	2,725,791
Total accumulated depreciation	7,969,743	431,360	-	8,401,103
Total capital assets being depreciated, net	7,318,045	(62,299)	-	7,255,746
Governmental activities, capital assets, net	\$ 8,032,479	(62,299)	-	7,970,180
Business type activities:				
Furniture and equipment	\$ 137,698	31,785	-	169,483
Less accumulated depreciation	114,230	12,237	-	126,467
Business type activities capital assets, net	\$ 23,468	19,548	-	43,016
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				\$ 431,360
Business Type activities:				
Food service operations				\$ 12,237

(4) Bonds Payable

Details of the District's June 30, 2011 general obligation bonded indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	4.30%	\$ 465,000	131,925	596,925
2013	4.30	480,000	115,650	595,650
2014	4.40	495,000	98,610	593,610
2015	4.50	520,000	80,790	600,790
2016	4.60	535,000	61,810	596,810
2017	4.70	560,000	42,283	602,283
2018	4.70	575,000	21,562	596,562
Total		<u>\$3,630,000</u>	<u>552,630</u>	<u>4,182,630</u>

(5) Changes in Long-Term Debt

	<u>Balance Beginning Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
Net OPEB Liability	\$ 11,267	11,372	-	22,639	-
Bond Payable	4,080,000	-	450,000	3,630,000	465,000
Early Retirement	553,658	-	210,431	343,227	79,417
Total	<u>\$4,644,925</u>	<u>11,372</u>	<u>660,431</u>	<u>3,995,866</u>	<u>544,417</u>

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$395,680, \$387,527, and \$367,535 respectively, equal to the required contributions for each year.

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$413,858 for year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Early Retirement

Prior to the fiscal year ending June 30, 2011 the District offered a voluntary early retirement plan to its certified employees. Eligible employees must have been at least age fifty-five and must have completed fifteen years of continuous service to the District. Employees completed an application which was required to be approved by the Board of Education. The early retirement incentive for each eligible employee was equal to the employee's salary calculated by using the current year regular salary schedule, less the current year base pay. Early retirement benefits paid during the year ended June 30, 2011 totaled \$210,431. Payments will continue through the fiscal year ending June 30, 2020.

(9) Risk Management

Cherokee Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$600,375</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(11) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription benefits for retirees and their spouses. There are 137 active and 21 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which result in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefits plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 118,180
Interest on net OPEB Obligation	282
Adjustment to annual required contribution	(8,150)
Annual OPEB Cost	<u>110,312</u>
Contributions made	(98,940)
Increase in net OPEB obligation	<u>11,372</u>
Net OPEB obligation beginning of year	<u>11,267</u>
Net OPEB obligation end of year	<u>\$ 22,639</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

The year ended June 30, 2011, the District contributed \$98,940 to the medical plan.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$114,081	90.1%	\$11,267
June 30, 2011	\$118,180	89.7%	\$11,372

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$1.055 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.055 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$6,081,000 and the ratio of the UAAL to covered payroll was 17.3%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from information provided by the District.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(12) Contingency

The District is being sued in regards to a fall that occurred during 2008 homecoming window painting. District legal counsel has advised us that they will be vigorously defending the District in this matter. The District's liability insurance policy will adequately cover any costs on behalf of the District.

(11) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	<u>Capital Projects, Physical Plant and Equipment Levy</u>	<u>Special Revenue, Physical Plant and Equipment Levy</u>
Balances June 30, 2010, as previously reported	\$ -	141,822
Change in fund type classification per implementation of GASB Statement No. 54	<u>141,822</u>	<u>(141,822)</u>
Balances July 1, 2010, as restated	<u>\$141,822</u>	<u>-</u>

Required Supplementary Information

CHEROKEE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2011

	Governmental Fund Types	Proprietary Fund Type	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
Revenues:						
Local sources	\$ 5,273,703	240,306	5,514,009	5,214,111	5,214,311	299,898
State sources	5,488,494	4,286	5,492,780	6,064,482	6,064,482	(571,702)
Federal sources	516,832	234,930	751,762	535,000	535,000	216,762
Total revenues	11,279,029	479,522	11,758,551	11,813,593	11,813,593	(55,042)
Expenditures/Expenses:						
Instruction	6,794,948	-	6,794,948	7,633,498	7,633,498	838,550
Support services	2,629,349	-	2,629,349	3,179,000	3,179,000	549,651
Non-instructional programs	-	455,936	455,936	609,680	609,680	153,744
Other expenditures	1,459,984	-	1,459,984	1,417,728	1,417,728	(42,256)
Total expenditures/expenses	10,884,281	455,936	11,340,217	12,839,906	12,839,906	1,499,689
Excess of revenues over (under) expenditures/expenses	394,748	23,586	418,334	(1,026,313)	(1,026,313)	1,444,647
Other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses	394,748	23,586	418,334	(1,026,313)	(1,026,313)	1,444,647
Balance beginning of year	2,312,731	142,670	2,455,401	2,121,790	2,121,790	333,611
Balance end of year	\$ 2,707,479	166,256	2,873,735	1,095,477	1,095,477	1,778,258

See accompanying independent auditor's report.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Note to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2011, expenditures in the other expenditures function exceeded the amount budgeted. The District did not exceed its General Fund unspent authorized budget.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the
Retiree Health Plan
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	Jul 1, 2009	\$0	\$1,141	\$1,141	0.0%	\$5,956	19.2%
2011	Jul 1, 2009	\$0	\$1,055	\$1,055	0.0%	\$6,081	17.3%

See Note 11 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

Other Supplementary Information

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Drama	\$ -	2,259	1,884	375
Speech	-	3,364	3,364	-
Music	-	1,133	1,133	-
WHS Vocal Fundraising	2,037	29,195	27,385	3,847
WHS Band	-	3,809	3,809	-
Cross Country	-	883	883	-
WHS Cheerleaders	5,605	3,090	6,734	1,961
Weightlifting	900	-	-	900
Boys Basketball	-	2,728	2,728	-
Boys Basketball Fundraiser	344	699	549	494
Football	-	5,083	4,107	976
Football Fundraiser	6,548	57,076	58,459	5,165
Baseball	-	4,427	4,427	-
Baseball Fundraiser	1,794	1,196	2,024	966
Boys Track	-	1,754	1,754	-
Boys Tennis	-	363	249	114
Boys Golf	-	1,465	1,465	-
Wrestling	-	2,544	2,544	-
Wrestling Fundraiser	1,208	17,168	18,376	-
Girls Basketball	-	2,341	2,341	-
Girls Basketball Fundraiser	1,150	5,839	2,418	4,571
Volleyball	-	3,422	3,422	-
Volleyball Fundraiser	8,495	1,813	4,931	5,377
Girls Softball	-	4,589	4,589	-
Softball Fundraiser	734	420	-	1,154
Girls Track	-	2,096	2,096	-
Girls Tennis	-	269	269	-
Girls Golf	-	1,863	1,863	-
Cherokeean	8,037	11,389	19,090	336
National Honor Society	445	524	404	565
Drug Free Lifestyles	2,388	-	-	2,388
Art Club	866	210	35	1,041
Student Council	5,306	3,513	2,499	6,320
Concessions	235	11,440	11,394	281
FCCLA	1,423	448	475	1,396
German Club	5,235	-	268	4,967
Spanish Club	1,930	1,841	710	3,061
Culinary Arts	2,222	2,052	1,853	2,421
Special Athletes	-	1,005	1,005	-
School to Work	33	-	-	33
WHS Work Study	2,235	-	-	2,235
Class of 2013	-	510	510	-
Class of 2014	-	210	-	210
Class of 2011	1,050	-	1,050	-
Class of 2012	1,262	210	65	1,407
Class of 2013	495	210	62	643

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Prom	1,722	9,198	9,712	1,208
Interest on Investments	-	132	-	132
WHS Athletics	-	9,814	9,814	-
WHS Activities - Ticket Sales	-	21,049	21,049	-
WHS Athletic Pop & Juice	944	76	-	1,020
WHS Safety Glasses and Padilocks	569	202	-	771
Stonering Class	937	1,073	404	1,606
Library Club	20	-	-	20
7th/8th Student Council	1,557	596	874	1,279
5th/6th Student Council	366	-	74	292
CMS Athletics	-	6,607	6,607	-
Middle School Volleyball	286	-	-	286
CMS Band	-	948	948	-
CMS Vocal	-	212	212	-
CMS Activity Resale	268	505	505	268
CMS Hoops Festival	165	-	-	165
Total	\$ 68,811	244,862	253,422	60,251

See accompanying independent auditor's report.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Combining Statement of Fiduciary Net Assets -
Private Purpose Trusts

Year ended June 30, 2011

	<u>Coop Learning</u>	<u>Interest Account</u>	<u>Thomas Account</u>	<u>Student Scholarship Fund</u>	<u>Vera Pratt Memorial</u>	<u>Totals</u>
Assets						
Cash and pooled investments	\$ 112	5,088	17,574	2,775	13,228	38,777
	<u>\$ 112</u>	<u>5,088</u>	<u>17,574</u>	<u>2,775</u>	<u>13,228</u>	<u>38,777</u>
Net assets						
Reserved for special purposes	\$ 112	5,088	17,574	2,775	13,228	38,777
	<u>\$ 112</u>	<u>5,088</u>	<u>17,574</u>	<u>2,775</u>	<u>13,228</u>	<u>38,777</u>

See accompanying independent auditor's report.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Combining Schedule of Charges of Fiduciary Assets and Liabilities -
Private Purpose Trusts

Year ended June 30, 2011

	<u>Coop Learning</u>	<u>Interest Account</u>	<u>Thomas Account</u>	<u>Student Scholarship Fund</u>	<u>Vera Pratt Memorial</u>	<u>Total</u>
Revenues:						
Local sources:						
Interest on investments	\$ -	145	-	-	4	149
Contributions	-	-	-	5,400	348	5,748
	-	145	-	5,400	352	5,897
Expenditures:						
Instruction:						
Regular instruction:						
Other	-	-	1,633	6,400	200	8,233
	-	-	1,633	6,400	200	8,233
Excess (deficiency) of revenues over (under) expenditures	-	145	(1,633)	(1,000)	152	(2,336)
Balance beginning of year	112	4,943	19,207	3,775	13,076	41,113
Balance end of year	<u>\$ 112</u>	<u>5,088</u>	<u>17,574</u>	<u>2,775</u>	<u>13,228</u>	<u>38,777</u>

See accompanying independent auditor's report.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Seven Years

	2011	2010	2009	2008	2007	2006	2005	2004
	Modified Accrual Basis							
Revenues:								
Local sources:								
Local tax	\$ 4,208,118	3,831,302	3,708,534	3,722,451	3,775,786	3,803,191	4,130,990	3,718,429
Tuition	419,892	391,288	320,420	294,704	430,518	412,713	391,584	541,379
Other	645,693	314,833	355,107	414,058	425,011	430,355	463,574	382,965
State sources	5,488,494	5,117,522	5,813,944	5,603,650	5,359,416	5,199,779	4,915,157	4,744,590
Federal sources	516,832	846,885	306,317	270,283	269,795	278,532	314,978	518,127
Total	<u>\$ 11,279,029</u>	<u>10,501,830</u>	<u>10,504,322</u>	<u>10,305,146</u>	<u>10,260,526</u>	<u>10,124,570</u>	<u>10,216,283</u>	<u>9,905,480</u>
Expenditures:								
Instruction	\$ 6,794,948	6,729,903	6,706,133	6,465,607	6,266,284	6,213,911	6,100,321	6,175,562
Support services:								
Student	190,942	148,928	116,916	283,762	297,875	279,333	290,956	333,180
Instructional staff	224,051	211,953	174,892	190,845	196,262	208,404	190,824	199,325
Administration	1,183,250	1,113,835	1,096,043	1,065,286	1,135,445	1,039,176	983,605	973,019
Operation and maintenance of plant	730,548	747,469	787,118	786,353	764,119	766,771	777,970	820,447
Transportation	300,558	391,752	292,430	309,272	355,558	275,838	241,682	209,665
Other support services	-	-	-	-	-	-	-	8,380
Other expenditures:								
Facilities acquisition	445,751	81,107	193,563	159,078	146,842	143,756	217,735	423,769
Debt Service:								
Principal	450,000	430,000	415,000	380,000	365,000	350,000	330,000	315,000
Interest and service charge	150,375	167,525	184,125	234,623	251,668	268,467	284,308	299,328
AEA flowthrough	413,858	411,845	366,161	352,720	346,427	326,372	318,596	323,297
Total	<u>\$ 10,894,281</u>	<u>10,434,317</u>	<u>10,332,381</u>	<u>10,227,546</u>	<u>10,125,480</u>	<u>9,872,028</u>	<u>9,735,997</u>	<u>10,080,972</u>

See accompanying independent auditor's report.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY11	32,095
Food Distribution (non-cash)	10.555	FY11	31,206
Summer Food Program for Children	10.559	FY11	6,104
National School Lunch Program	10.555	FY11	<u>165,525</u>
			<u>234,930</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY11	147,389
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY11	48,206
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY11	56,588
Improving Teacher Quality States Grants	84.367	FY11	40,043
Grants for Assessments and Related Activities	84.369	FY11	6,461
Vocational Education - Basic Grants to States	84.048	FY11	8,473
English Language Acquisition Grant	84.365	FY11	2,523
Education Jobs Fund	84.041	FY11	39,805
Northwest Area Education Agency 4:			
ARRA - Special Education - Grants to States, Recovery Act	84.391	FY11	68,295
Special Education - Grants to States (IDEA Part B)	84.027	FY11	<u>51,663</u>
Total			<u>\$ 704,376</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Cherokee Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

BRUCE D. FRINK

Certified Public Accountant

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
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Plus:

- Over 30 years of Expertise and Experience
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- Extended Hours During Tax Season

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Education of the
Cherokee Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Cherokee Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 9, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cherokee Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Cherokee Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cherokee Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-11 and II-B-11 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We noted no items which we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cherokee Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Cherokee Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Cherokee Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Cherokee Community School District and other parties to whom Cherokee Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Cherokee Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



BRUCE D. FRINK
Certified Public Accountant

January 9, 2012

BRUCE D. FRINK

Certified Public Accountant

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of
Cherokee Community School District:

Compliance

We have audited the compliance of Cherokee Community School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Cherokee Community School District's major federal programs for the year ended June 30, 2011. Cherokee Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Cherokee Community School District's management. Our responsibility is to express an opinion on Cherokee Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cherokee Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Cherokee Community School District's compliance with those requirements.

In our opinion, Cherokee Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

The management of Cherokee Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Cherokee Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cherokee Community School District's internal control over compliance.

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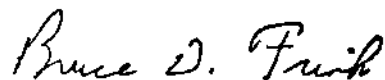
Phone: (515) 532-6659
Fax: (515) 532-3677
bruce@frinkcpa.com

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11 to be a material weakness.

Cherokee Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Cherokee Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Cherokee Community School District and other parties to whom Cherokee Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



BRUCE D. FRINK
Certified Public Accountant

January 9, 2012

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Title I Clustered Programs:
 - CFDA Number 84.389 - ARRA - Title I Grant to local Educational Agencies, Recovery Act
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - School Nutrition Clustered Programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.559 - Summer Food Service Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Cherokee Community School District did not qualify as a low-risk auditee.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-11 Segregation of Duties - One important aspect of the internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although the District does a fine job of dividing incompatible duties among existing personnel, the District Secretary still has the ability to override the system without the knowledge of any other personnel.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa which makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response - We will continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

II-B-11 Auditor Drafting of the Financial Statements and Related Footnote Disclosures

Comment - As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. SAS 115, an auditing standard from the American Institute of Certified Public Accountants, requires auditors to communicate this situation as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of the presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. However, based on this auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the District's management. As in prior years, we have instructed management to review a draft of the auditor prepared financial statements in detail for their accuracy, we have answered any questions they might have, and encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your financial statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - We feel our review of the draft financials is adequate for us to accept this risk.

Conclusion - Response accepted.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 84.389 - ARRA - Title I Grants to Local Educational Agencies, Recovery Act

CFDA Number 84.010 - Title I Grants to Local Educational Agencies

Federal Award Year: 2011

US Department of Education

Passed through Iowa Department of Education

CFDA Number 10.553 - School Breakfast Program

CFDA NUMBER 10.555 - National School Lunch Program

CFDA NUMBER 10.559 - Summer Food Service Program for Children

Federal Award Year: 2011

US Department of Agriculture

Passed through Iowa Department of Education

III-A-11 Segregation of Duties - The District did not properly segregate custody, record keeping and reconciling functions for funds, including those related to Federal programs.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa which makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response and Corrective Action Planned - We will continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-11 Certified Budget - Expenditures for the year ended June 30, 2011 exceeded the budget amount in the other expenditures function. The District did not exceed its unspent authorized budget.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

IV-B-11 Questionable Expenditures - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting:
(continued):

- IV-C-11 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-11 Business Transactions - No business transactions between the District and District officials or employees were noted.
- IV-E-11 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- IV-F-11 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-G-11 Certified Enrollment - No variance in the basic enrollment data certified to the Department of Education were noted.
- IV-H-11 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- IV-I-11 Deposit and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- IV-J-11 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.
- IV-K-11 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

Statewide sales, services and use tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 923,751
Revenues/transfers in:		
Statewide sales, services and use tax	\$692,793	
Other local sources	<u>5,798</u>	<u>698,591</u>
Expenditures/transfers out:		
Debt service for school infrastructure:		
General obligation debt		<u>600,375</u>
Ending balance		<u>\$1,021,967</u>

The statewide sales, services and use tax revenue received during the year ended June 30, 2011 is equivalent to a reduction in the following levies:

	Per \$1,000 Of Taxable Valuation	Property Tax Dollars
Debt Service	<u>\$2.65</u>	<u>\$600,375</u>